

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY ABIDJAN PRIORITY

AMEMBASSY ACCRA PRIORITY

AMEMBASSY ADDIS ABABA PRIORITY

AMEMBASSY BELGRADE PRIORITY

AMEMBASSY BERN PRIORITY

AMEMBASSY BONN PRIORITY

AMEMBASSY BRASILIA PRIORITY

AMEMBASSY BRUSSELS PRIORITY

AMEMBASSY BUDAPEST PRIORITY

AMEMBASSY BUENOS AIRES PRIORITY

AMEMBASSY CAIRO PRIORITY

AMEMBASSY CARACAS PRIORITY

AMEMBASSY COPENHAGEN PRIORITY

AMEMBASSY DAKAR PRIORITY

AMEMBASSY DAR ES SALAAM PRIORITY

AMEMBASSY DUBLIN PRIORITY

AMEMBASSY GUATEMALA PRIORITY

AMEMBASSY HELSINKI PRIORITY

AMEMBASSY JAKARTA PRIORITY

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AMEMBASSY JIDDA PRIORITY

AMEMBASSY KUWAIT PRIORITY

AMEMBASSY LAGOS PRIORITY

AMEMBASSY LILONGWE PRIORITY

AMEMBASSY LISBON PRIORITY

AMEMBASSY LONDON PRIORITY

AMEMBASSY MADRID PRIORITY

AMCONSUL MELBOURNE PRIORITY

AMEMBASSY MOSCOW PRIORITY

AMEMBASSY MUSCAT PRIORITY

AMEMBASSY NAIROBI PRIORITY
AMEMBASSY NEW DELHI PRIORITY
AMEMBASSY PORT LOUIS PRIORITY
AMEMBASSY PARIS PRIORITY
AMEMBASSY PRAGUE PRIORITY
AMEMBASSY QUITO PRIORITY
AMEMBASSY ROME PRIORITY
AMEMBASSY SAN SALVADOR PRIORITY
AMEMBASSY SINGAPORE PRIORITY
AMEMBASSY STOCKHOLM PRIORITY
AMEMBASSY SUVA PRIORITY
AMEMBASSY TANANARIVE PRIORITY
AMEMBASSY THE HAGUE PRIORITY
AMEMBASSY TRIPOLI PRIORITY
AMEMBASSY VALLETTA PRIORITY
AMEMBASSY VIENNA PRIORITY
AMEMBASSY WARSAW PRIORITY
AMEMBASSY BEIRUT
INFO AMEMBASSY CANBERRA
AMCONSUL MONTREAL
AMCONSUL RIO DE JANEIRO

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C O R R E C T E D COPY (LAST 2 LINES OF TEXT OMITTED)

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E.O. 11652. N/A

TAGS: EAIR, XX, ICAO

SUBJECT: U.S. VIEWS REGARDING ICAO SPECIAL AIR
TRANSPORT CONFERENCE, MONTREAL, APRIL 13-26, 1977

1. THE INTERNATIONAL CIVIL AVIATION ORGANIZATION
(ICAO), IN RESPONSE TO A DIRECTIVE OF ITS 1974 ASSEMBLY,
WILL HOLD ITS FIRST WORLDWIDE CONFERENCE ON MAJOR
ECONOMIC PROBLEMS CONFRONTING INTERNATIONAL AIR
TRANSPORT

AT ICAO HEADQUARTERS APRIL 13-26. THE FOUR AGENDA
ITEMS SELECTED FOR CONSIDERATION BY THE AIR TRANSPORT
CONFERENCE ARE 1) TARIFF ENFORCEMENT; 2) POLICY CONCERNING
INTERNATIONAL NON-SCHEDULED AIR TRANSPORT; 3) REGULATION
OF CAPACITY IN INTERNATIONAL AIR TRANSPORT SERVICES AND
4) MACHINERY FOR THE ESTABLISHMENT OF INTERNATIONAL AIR
TRANSPORT FARES AND RATES.

2. SINCE THE HOST GOVERNMENTS OF THE ADDRESSEE MISSIONS
WILL BE ATTENDING THE ICAO AIR TRANSPORT CONFERENCE,
THE MISSIONS ARE REQUESTED, UNLESS THEY PERCEIVE OBJECTION,
TO CONTACT THE APPROPRIATE FOREIGN MINISTRY AND CIVIL
AVIATION OFFICIALS CONCERNED WITH THIS CONFERENCE AND

PRESENT TO THEM AND DISCUSS THE FOLLOWING STATEMENT CONTAINING GENERAL U.S. VIEWS AND POLICY REGARDING THE SUBJECT MATTER OF THE CONFERENCE. (WE PLAN TO CIRCULATE THIS U.S. STATEMENT, POSSIBLY IN THE FORM OF AN OPENING ADDRESS, AT THE ICAO CONFERENCE.)

3. MISSIONS REQUESTED REPORT TO THE DEPARTMENT SOONEST BY PRIORITY CABLE ANY REACTIONS RECEIVED TO U.S. PAPER OR OTHER INFORMATION OBTAINED REGARDING HOST GOVERNMENTS' ATTITUDE TOWARD THE ICAO CONFERENCE AND WHAT THEY EXPECT IT WILL ACHIEVE.

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4. FOLLOWING IS U.S. STATEMENT:
QUOTE...THE FOUR AGENDA ITEMS ARE INTEGRALLY RELATED TO EACH OTHER.

THE QUESTION OF REGULATION OF FARES AND RATES AND OF CAPACITY, FOR EXAMPLE, CANNOT BE CONSIDERED SEPARATELY OR IN ISOLATION.

INTERNATIONAL AIR ROUTES ARE REGULATED BY GOVERNMENTS, LARGELY THROUGH A SYSTEM OF BILATERAL AGREEMENTS, AS A RESULT OF MULTILATERAL CONVENTIONS CULMINATING IN THE CHICAGO CONVENTION OF 1944 IN WHICH THE RIGHT OF STATES TO CONTROL AIR TRAFFIC RIGHTS WAS ACCEPTED. WHILE COMPETITION AMONG AIRLINES EXISTS IN TERMS OF THE INTERNATIONAL ROUTE STRUCTURE, THAT STRUCTURE HAS BEEN, AND WILL UNDOUBTEDLY REMAIN, CLOSELY REGULATED BY GOVERNMENTS. THEREFORE, THE ONLY ECONOMIC ELEMENTS WHERE COMPETITIVE FORCES COULD OPERATE ARE CAPACITY AND PRICE.

THE UNITED STATES BELIEVES THAT A SUFFICIENT DEGREE OF COMPETITION MUST EXIST IN INTERNATIONAL AIR TRANSPORTATION IF THE SYSTEM IS TO PROVIDE THE INCENTIVES AND INNOVATION NECESSARY TO ASSURE THAT THE NATIONS OF THE WORLD AND CONSUMERS (TRAVELERS AND SHIPPERS) HAVE AVAILABLE A SAFE, ECONOMIC, EFFICIENT, AND RELIABLE AIR TRANSPORTATION SYSTEM BASED ON EQUALITY OF OPPORTUNITY. IF INCENTIVE AND INNOVATION ARE NOT ENCOURAGED, THE OBJECTIVE SET FORTH IN THE PREAMBLE TO THE CHICAGO CONVENTION CANNOT BE ACHIEVED.

FARES AND RATES FOR INTERNATIONAL SCHEDULED AIR SERVICES ARE, FOR THE MOST PART, ESTABLISHED BY THE INTERNATIONAL AIRLINES THROUGH IATA, SUBJECT TO GOVERNMENT APPROVAL. EXCEPT TO THE EXTENT THAT GOVERNMENTS PREVENT THE CHARGING OF EXCESSIVE RATES OR THAT THE SCHEDULED
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AIRLINES ARE SUBJECT TO PRICE COMPETITION FROM OTHER TRANSPORTATION MODES, THERE CAN BE NO EFFECTIVE PRICE COMPETITION FOR SCHEDULED FARES AND RATES UNDER THE IATA SYSTEM. THE UNITED STATES HAS, HOWEVER, ATTEMPTED TO EXERCISE CLOSE SCRUTINY OF IATA RESOLUTIONS IN ORDER TO ASSURE THAT FARES AND RATES ARE NOT EITHER UNREASONABLY HIGH (EXCESSIVE RETURN ON INVESTMENT) OR LOW (BELOW COST). IN RECENT YEARS, THE UNITED STATES HAS ALSO BEEN CONCERNED OVER THE STRUCTURE OF FARES AND RATES, PARTICULARLY FROM THE VIEWPOINT OF CERTAIN FARES CATEGORIES SUBSIDIZING OTHERS. IN ADDITION, IT APPEARS THAT SOME PRICE COMPETITION HAS BEEN INTRODUCED IN SCHEDULED FARES AND RATES IN RESPONSE TO STIMULI FROM OTHER TRANSPORTATION MODES (E.G., CHARTERS). NOVERTHELESS, THE DEGREE OF OVERALL COMPETITION WITH REGARD TO PRICES IS LIMITED UNDER THE CURRENT IATA SYSTEM. THERE ARE SOME MARKETS IN WHICH COMPETITION MAY BE ENHANCED BY AIRLINES WHICH ARE NOT MEMBERS OF IATA.

CAPACITY HAS BEEN REGULATED BY GOVERNMENTS IN DIFFERENT WAYS RANGING FROM A FEW WHO OFFER OPEN SKIES, TO THE BERMUDA APPROACH, TO PREDETERMINATION OF CAPACITY EITHER BY GOVERNMENTAL OR AIRLINE AGREEMENT. EXCEPT FOR A FEW COUNTRIES WHOSE INTERESTS MAY DICTATE AN OPEN SKIES POLICY, NO COUNTRY APPEARS TO SUPPORT THE CONCEPT THAT AIRLINES SHOULD BE FREE TO USE CAPACITY AS AN UNLIMITED COMPETITIVE TOOL.

A CONSIDERABLE AMOUNT OF OPPOSITION HAS DEVELOPED TO THE LIBERAL, BUT NOT UNREGULATED, APPROACH EMBODIED IN THE BERMUNDA PRINCIPLES ON THE ALLEGED GROUND THAT IT HAS CAUSED EXCESS CAPACITY. PROPONENTS OF THIS VIEW SUPPORT PREDETERMINATION OF CAPACITY. EXCESS CAPACITY RESULTS FROM AIRLINES OFFERING MORE SEATS THAN THEY CAN FILL AT A LOAD FACTOR WHICH WILL PRODUCE A MARGINAL RETURN ON INVESTMENT, AND IS THEREFORE NOT A PRACTICE UNCLASSIFIED

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WHICH AIRLINE MANAGEMENT CAN ACCEPT IN THE LONG-TERM. SUCH EXCESS CAPACITY HAS OCCURRED IN THE PAST, MOST RECENTLY AS A CONSEQUENCE OF THE ESCALATION OF FUEL PRICES AT A TIME WHEN TRAFFIC WAS DECLINING, BUT IT IS A SHORT-TERM, POSSIBLY CYCLICAL, PHENOMENON. A SYSTEM OF PREDETERMINATION OF CAPACITY, WHILE IT MIGHT AMELIORATE SHORT-TERM PROBLEMS, IS LIKELY IN THE LONG-TERM TO REMOVE THE INCENTIVE AIRLINES MUST HAVE TO DEVELOP MARKETS.

IF, HOWEVER, SOME FORM OF CLOSE CONTROL OVER CAPACITY IS TO BE ADOPTED IN PARTICULAR MARKETS, IT THEN BECOMES

IMPORTANT TO THE OPERATION OF A VIABLE INTERNATIONAL SYSTEM FOR THE AIRLINES TO PASS ON THE SAVINGS THEY CAN ACHIEVE BY OPERATING AT HIGH LOAD FACTORS TO THE CONSUMING PUBLIC IN THE FORM OF RELATIVELY LOWER FARES AND RATES. THE CURRENT SYSTEM FOR ESTABLISHING FARES AND RATES DOES NOT CONTAIN SUFFICIENT FLEXIBILITY TO BRING ABOUT THIS LATTER RESULT.

EITHER GOVERNMENT MUST PLAY A MORE ACTIVE ROLE IN SCRUTINIZING IATA RECOMMENDATIONS OR IATA MUST FIND A WAY TO RELATE FARES AND RATES MORE CLOSELY TO COSTS.

IN SUMMARY, CAPACITY AND PRICE CANNOT BE VIEWED SEPARATELY FROM ONE ANOTHER. NOR CAN THEY BE CONSIDERED WITHOUT REGARD TO TARIFF ENFORCEMENT AND NON-SCHEDULED SERVICES.

TARIFF ENFORCEMENT IS OBVIOUSLY ,NTEGRALLY RELATED TO FARES AND RATES, AND TO CAPACITY AS WELL. A CONDITION OF EXCESS CAPACITY CAN ENCOURAGE REBATES, DISCOUNTS AND OTHER FORMS OF TARIFF EROSION, IN ORDER TO FILL SEATS AT LOWER THAN ESTABLISHED FARES, RATHER THAN HAVE THEM UNSOLD.

CHARTER SERVICES MAY DIVERT FROM SCHEDULED SERVICES TO UNCLASSIFIED

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THE EXTENT THAT PRICE SENSITIVE DISCRETIONARY TRAVEL WOULD NORMALLY BE ATTRACTED TO SCHEDULED SERVICE. HOWEVER, BECAUSE OF THE LOWER FARES THAT RESULT FROM THE FULL-PLANE-LOAD ECONOMICS OF CHARTER SERVICES, PRICE SENSITIVE DICRETIONARY TRAVELLERS WILL NOT NORMALLY PAY THE HIGHER FARES ASSOCIATED WITH SCHEDULED SERVICE. MOREOVER, CHARTER SERVICES CREATE NEW TRAVELLERS WHO MAY BE EXPECTED TO UTILIZE BOTH SCHEDULED AND CHARTER SERVICES AGAIN. AS NOTED ABOVE, SOME DEGREE OF PRICE COMPETITION IN SCHEDULED FARES AND RATES RESULTS FROM CHARTER SERVICES. IN THEIR EFFORTS TO COMPETE WITH CHARTER SERVICES, SCHEDULED SERVICE AIRLINES MAY BE TEMPTED, HOWEVER, TO OFFER PROMOTIONAL FARES BELOW COST, AND TO COMPENSATE WITH HIGHER THAN COST FARES FOR THE NORMAL FARE PASSENGER, WHO THEN IN EFFECT SUBSIDIZES THE LOWER PROMOTIONAL OR DISCOUNT FARES.

THE US BELIEVES THAT BOTH SCHEDULED AND CHARTER SERVICES HAVE ESSENTIAL ROLES TO PLAY AND THAT THERE SHOULD BE A FAIR OPPORTUNITY FOR EACH OF THESE MODES TO COMPETE. SCHEDULED SERVICES SHOULD BE ENSURED AT ESSENTIAL LEVELS. ALSO, HOWEVER, THERE IS SUBSTANTIAL NEED FOR CHARTER SERVICES TO ATTRACT THE PRICE-SENSITIVE PASSENGER, WITH CONSEQUENT DEVELOPMENT OF TOURISM, A HIGH PRIORITY ECONOMIC OBJECTIVE IN MOST COUNTRIES.

IN SUM, ALL FOUR AGENDA ITEMS FOR THE CONFERENCE ARE
INTERRELATED, AND IT IS UNREALISTIC AND INFEASIBLE TO
TREAT THEM SEPARATELY AND IN ISOLATION. THE US RECOMMENDS
THAT STATES, IN DEVELOPING THEIR POLICIES, GIVE FULL
CONSIDERATION TO THE INTERRELATIONSHIPS INVOLVED, IN
ORDER THAT REGULATORY POLICIES WILL ACHIEVE THE GOALS
AND OBJECTIVES SET FORTH IN THE CHICAGO CONVENTION.
END QUOTE.

FOR PARIS: EMBASSY MAY PASS FOREGOING STATEMENT TO DOZ
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OF ECAC AS REQUESTED IN PARIS 8798. CHRISTOPHER

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Message Attributes

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Disposition Approved on Date:
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